

Message Text

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ACTION EB-07

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 1547

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E.O. 11652: NA

TAGS: ETRD, RP

SUBJECT: COTTON CONTRACTS

PASS AGRICULTURE/WILLIAMS/COTTON/FAS/FMD AND K.O. STEPHENS/CEP

REF: A. STATE 056328 B. MANILA 3083 C. STATE 062251 D. STATE 051486

1. REFERENCE TO "NATIONAL GOVERNMENT" IN REFTEL (A) SIMPLY INTENDED ALERT U.S. THAT GOVERNMENT ASSURANCE COULD NOT BE EXTENDED UNLESS CONDITIONS DESCRIBED BY VIRATA WERE MET. ALTHOUGH VIRATA ACTING AS SPOKESMAN FOR GOP, MATTER INVOLVES DECISION ON MONETARY BOARD, WHICH INCLUDES REPRESENTATIVES OF CENTRAL BANK, PHILIPPINE NATIONAL BANK, AND SECRETARY OF FINANCE AS WELL AS DBP, A WHOLLY GOVERNMENT-OWNED CORPORATION. ANY GOP ASSURANCES WOULD NEED TO BE OBTAINED IN SAME MANNER IN FINAL AGREEMENT.

2. THREE MILLS MENTIONED IN REFTEL (A) WERE LITTON, LIRAG, AND YUPANGCO. THESE MILLS PLACED IN THIS CATEGORY BASED ON STOCK POSITION, RATE OF CONSUMPTION AND NUMBER OF OUTSTANDING CONTRACTS, NOT RPT NOT LIQUIDITY POSITION. IN RECENT CONTACT WITH DEP, MRS. REYES SUGGESTED THAT SHE NOW FEELS THAT LITTON WILL BE ABLE TO MEET COMMITMENTS WITHIN FOUR MONTHS.

3. YUPANGCO'S PROBLEM MORE DIFFICULT AND AGATTACHE FEELS THAT

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LIKELY STRETCH OUT IN DELIVERY NOT ENTIRELY TIED TO RATE OF CON-

SUMPTION AND STOCK POSITION, BECAUSE YUPANGCO HAS SISTER MILLS IN SHORT RAW COTTON STOCK POSITION. FYI. WE UNDERSTAND THAT COTTON IMPORT AND EXPORT COMPANY HAS REQUESTED A "TECHNICAL ARBITRATION" BY LIVERPOOL ARBITRATION BOARD AND IS ASKING FOR A JUDGMENT ON EITHER OR BOTH THE REMAINING PORTION OF CONTRACT NOS. CAG-439 AND CAG-440. INFORMATION IS BASED ON CONTACT WITH RALLY-CONEY AGENT WHO ALLEGEDLY WAS REQUESTED BY YUPANGCO TO OBTAIN INFORMATION ABOUT THE ARBITRATOR APPOINTED BY LIVERPOOL ARBITRATION BOARD AS YUPANGCO DID NOT RESPOND TO LIVERPOOL'S REQUEST TO NAME ARBITRATION REPRESENTATIVE. END FYI. IF THIS INFORMATION IS CORRECT THE ONLY OVERDUE YUPANGCO CONTRACT OF RECORD (AS OF JANUARY 6, ACSA LIST) THAT DBP WILL RECOGNIZE IS COTTON IMPORT-EXPORT'S CAH-31 FOR 6,000 BALES.

4. LIRGG WILL NOT BE ABLE TO HONOR CONTRACTS IN FOUR MONTHS. WE ESTIMATE THAT IT COULD TAKE 18 TO 24 MONTHS FOR LIRAG TO CLEAR UP OVERDUE CONTRACTS.

5. EMBASSY APPRECIATES SENSE OF URGENCY AS EXPRESSED IN REF (C). HOWEVER, LITTLE MORE EMBASSY CAN DO TO PROMOTE ACTION UNTIL WASHINGTON ACTS ON GOP REQUEST FOR ADDITIONAL PL 48 AND/OR CCC ASSISTANCE. TO AVOID DELAY AND ASSUMING SOME FINANCIAL ASSISTANCE WILL BE MADE AVAILABLE. EMBASSY HAS FLOATED WITH REYES OF DBP A COPY OF PROPOSED LETTER REF D. REYES DID NOT BELIEVE GOP WOULD HAVE ANY PROBLEMS WITH CONTENTS OF PROPOSED LETTER EXCEPT 3 (D) TIMING OF OPENING LF L/C'S. ASSUME THESE DATES WOULD NOT NECESSARILY BE THE SAME AS INDICATED REF D.

6. FROM EMBASSY POINT OF VIEW, MAIN PROBLEM WILL BE OVERDUE CONTRACTS OF LIRAG AND PERHAPS YUPANGCO. DBP HAS STATED ON SEVERAL OCCASIONS, AND IMPLIED SUCH IN LETTER OF FEBRUARY 24, THAT IT CANNOT FORCE THESE MILLS TO OPEN L/C'S FOR ALL OVERDUES WITHIN NEAR FUTURE AND DBP NOT WILLING TO GET INTO COTTON BUSINESS. THUS, IT APPEARS EVEN IF ADDITIONAL FINANCIAL ASSISTANCE MADE AVAILABLE TO GOP, THE LIRAG AND, PERHAPS, YUPANGCO PROBLEM WILL STILL NOT BE RESOLVED. APPRECIATE ANY COMMENTS WASHINGTON HAS ON THIS SUBJECT.

7. DBP'S LETTERS OF FEB. 12 AND 24 BEING FORWARDED BY POUCH.
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